



FOLLOW-UP REVIEW OF TVA HOSPITALITY EXPENSES

**Audit 2005-052F
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**Project Lead
Lisa H. Hammer**



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Background

- ▶ TVA's Business Practice 7 (BP 7) states that TVA may provide the following types of hospitality:
 - ▶ Meals and other food services.
 - ▶ Room and equipment rental (associated with hospitality).
 - ▶ Lodging, meals, and travel expenses for visitors, guests, and interviewees.
 - ▶ Entertainment and noncash gifts associated with TVA-sponsored events.
 - ▶ Flowers and decorations for TVA-sponsored events.
 - ▶ Flowers sent due to death or major illness of a TVA employee or member of their immediate family, or external customers.
 - ▶ Incidental expenses associated with a job related injury or death.

Background (cont'd)

- ▶ Hospitality expenditures are prohibited for any activity which would likely be perceived by a reasonable member of public as an improper or inefficient use of TVA resources.
- ▶ BP 7 places restrictions and monetary limits on approval authorities.
- ▶ Employees who violate the hospitality policy are subject to discipline.
- ▶ TVA's Accounting Procedure 9 (AP 9) states that hospitality expenses are to be included under cost classification 25W.

In September 2004, the OIG issued a report on TVA's hospitality program.

- ▶ We found no instances of noncompliance with BP 7. However, we noted that TVA's practice of allowing TVA employees to engage in hospitality spending without more specific guidance increased the risk of harm to TVA's reputation.
- ▶ TVA organizations did not accurately classify about \$750,000 in expenses in accordance with AP 9.

Background (cont'd)

- ▶ The OIG recommended the TVA Controller implement procedures to improve the reporting, reviewing, and monitoring of hospitality expenditures across TVA organizations to ensure compliance with BP 7 and accurate classification of hospitality expenses in compliance with AP 9.
- ▶ We further recommended the new procedures address each line organization's responsibility to appropriately document the justification for significant hospitality expenditures, including a documented reputation risk analysis to ensure the activity would not likely be perceived by a reasonable member of the public as an improper or inefficient use of TVA resources.
- ▶ The Controller agreed to take the following corrective actions.
 - ▶ Coordinate a revision to BP 7 that required the use of a pre-approval form for all hospitality expenditures in excess of \$500. This form would incorporate a reputation risk analysis including explanation of the proposed business purpose, the benefit to TVA, and any potential risk to TVA's reputation.

Background (cont'd)

- ▶ Develop an on-line training module for employees who plan or approve hospitality. All Visa Gold, Visa Purchasing, and convenience check account holders must take the training in order to maintain their accounts.
- ▶ The Controller also plans to test the approval, documentation, and classification of hospitality expenditures in conjunction with the Controller organization's responsibilities for assessing internal controls over financial reporting under TVA's Corporate Accountability and Disclosure Plan.

Objectives/Scope

Our objectives were to:

- (1) Determine the types and level of expenditures for hospitality activities in TVA organizations.
- (2) Assess whether these expenditures were in compliance with policies and procedures related to the hospitality program.

We reviewed TVA's hospitality expenses, totaling \$1.16 million, for the nine-month period of October 1, 2004, through June 30, 2005.

- ▶ In addition, we included over \$784,000 in expenses charged to cost classification 25W for the three-month period of July 1 through September 30, 2005 (adjusted for one organization's year-end events incorrectly charged to another cost classification) solely in order to compare FY 2003 expenses reported in the prior OIG review with FY 2005 expenses. However, we did not perform a detailed review of these expenditures.

This audit was performed in accordance with generally accepted government auditing standards.

Methodology

To achieve our objectives, we:

- ▶ Identified hospitality expenses by reviewing (1) TVA gold card purchases, (2) TVA purchasing card and convenience check purchases, (3) miscellaneous payments, (4) hospitality expenses reimbursed through TVA's Employee Reimbursement System, (5) TVA Facilities' Corporate Meetings database, and (6) documentation provided by TVA personnel.
- ▶ Reviewed selected documentation and explanations supporting the hospitality expenses from TVA organizations.
- ▶ Summarized hospitality expenses identified by TVA organization.
- ▶ Statistically selected 58 transactions from 1,745 gold card, purchasing card, and convenience check purchases (3.3 percent) that were not classified as 25W but appeared to be hospitality to determine whether the transactions were accurately classified.

Methodology (cont'd)

- ▶ Reviewed TVA procedures related to gold cards, purchasing cards, miscellaneous vouchers, employee reimbursements, employee recognition, and safety awards and recognition.
- ▶ Reviewed TVA's hospitality training module for compliance with BP 7.
- ▶ Obtained and reviewed organizational hospitality procedures for compliance with BP 7.
- ▶ Used guidance provided by (1) BP 7 to determine if the organizations complied with TVA's hospitality guidelines and (2) AP 9 to determine if these expenses were correctly classified.
- ▶ Determined whether individuals who had purchased hospitality during the period reviewed had completed the required hospitality training as reflected in TVA's Automated Training Information System as of November 30, 2005.

Findings

1. TVA hospitality expenses for fiscal year (FY) 2005 totaled \$1.94 million, a 70 percent decrease from our prior review of FY 2003 expenses.
2. We found no instances of noncompliance with BP 7 with regard to the activities and type of expenditures allowed. However, we found that some confusion exists with regard to what is considered hospitality.
3. Sixteen purchasing and gold card cardholders that purchased hospitality did not participate in the required hospitality training.
4. TVA organizations did not accurately classify an estimated 37.93 percent of credit card transactions as hospitality in accordance with AP 9.
5. BP 7 does not address (1) purchases of hospitality with a purchasing card, or (2) use of TVA's hospitality pre-approval form.

Finding 1 - Types and Level of Expenditures

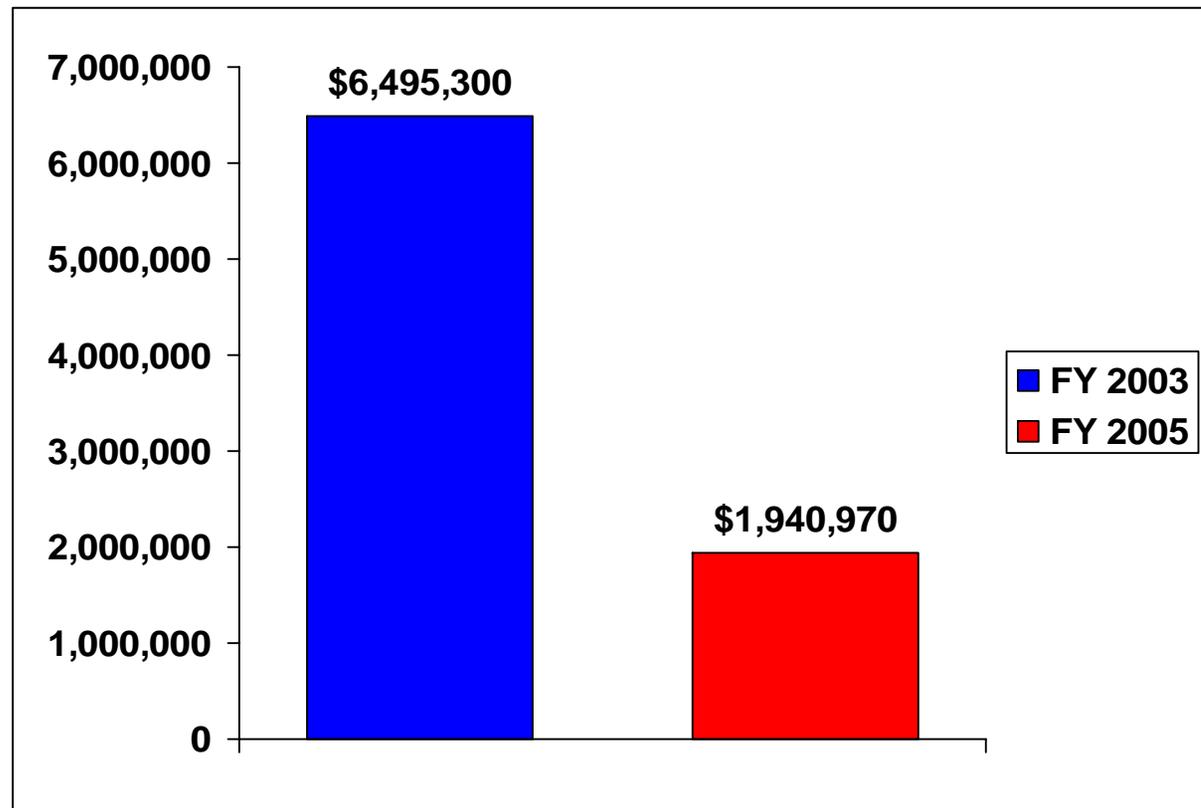
During our September 2004 review of TVA hospitality, we identified \$6.50 million in FY 2003 hospitality expenses. We were able to identify TVA hospitality expenses for FY 2005 totaling \$1.94 million, a 70 percent decrease from FY 2003 as compared to FY 2005.

We reviewed \$1.16 million in hospitality expenses purchased using gold and purchasing cards, convenience checks, miscellaneous vouchers, and employee reimbursements. Types of hospitality purchased included:

- ▶ Restaurant, catering, and other food charges totaling \$537,253.
- ▶ Charges to hotels totaling \$218,172.
- ▶ Event tickets, such as admission to sporting events, totaling \$91,596.

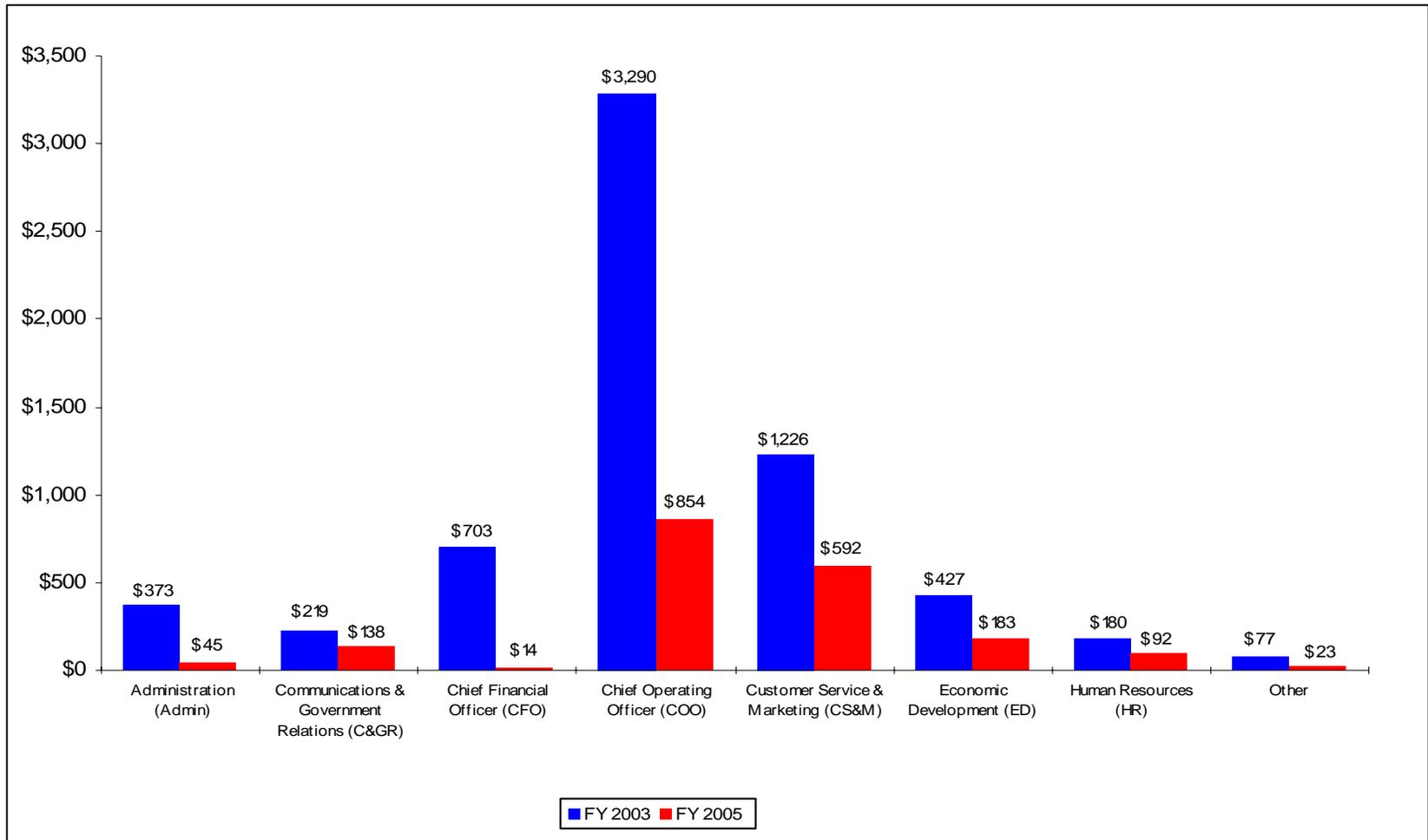
Types and Level of Expenditures

- ▶ For FY 2003, we identified \$6,495,300 in hospitality expenses.
- ▶ TVA hospitality expenses for FY 2005 totaled \$1,940,970, a decrease of \$4,554,330 (70 percent).



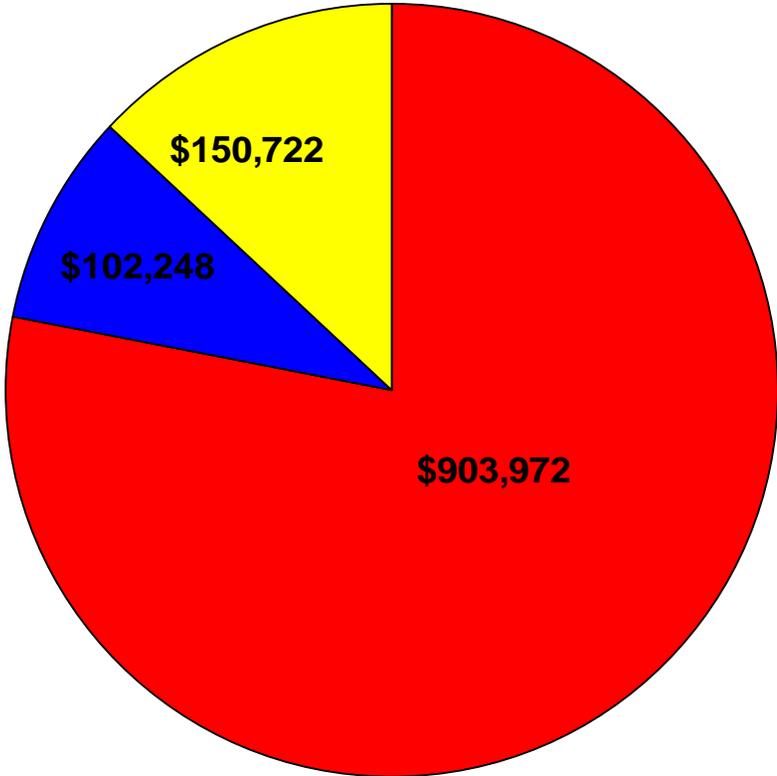
FY 2005 Hospitality Expenses Compared to Prior Review

(by Organization – in thousands)



TVA Hospitality Expenses Reviewed

(by Purchase Method)

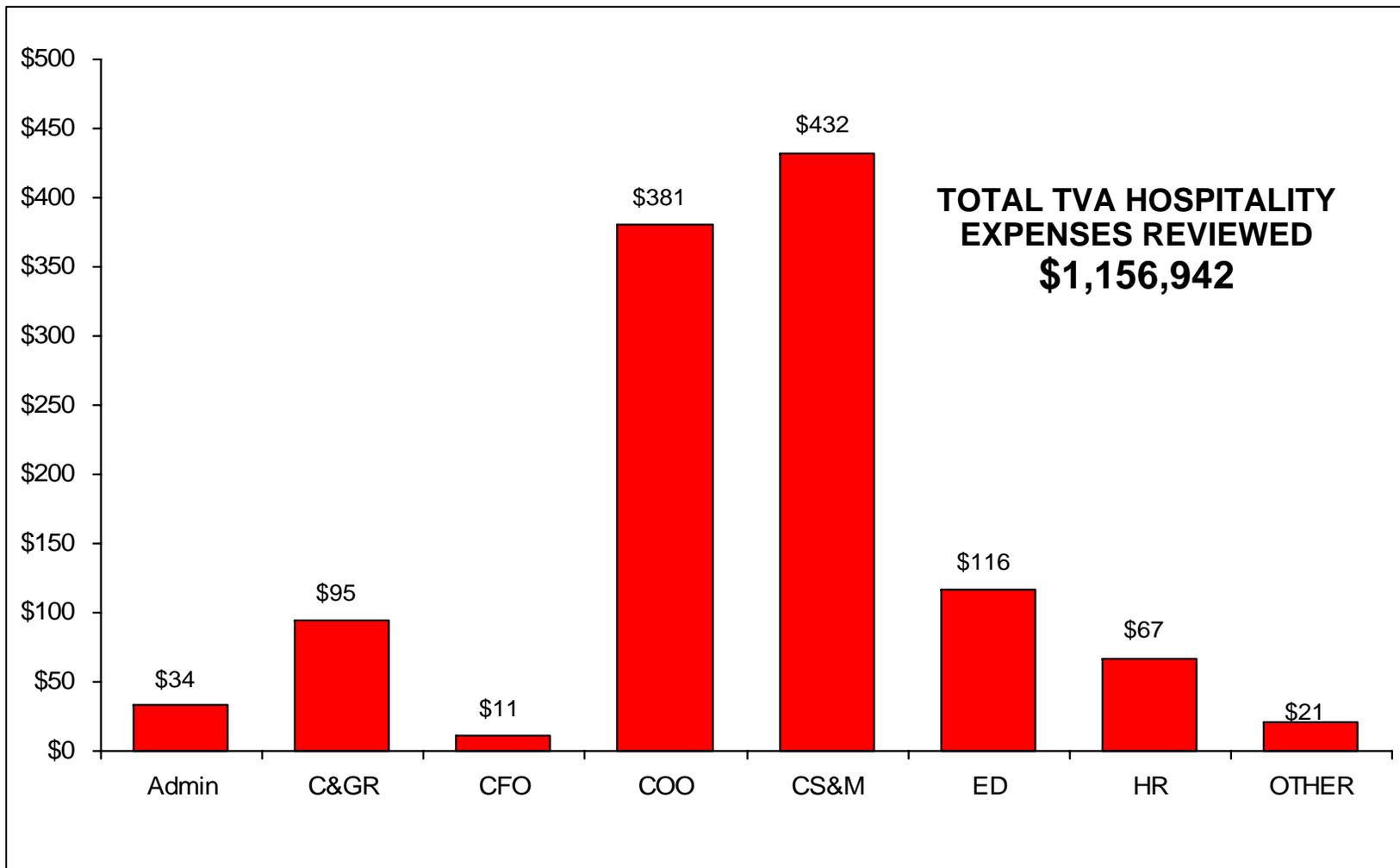


**TOTAL TVA HOSPITALITY
EXPENSES REVIEWED
\$1,156,942**



TVA Hospitality Expenses Reviewed

(by Organization – in thousands)



TVA Hospitality Expenses Reviewed

(Organizationally, by purchase method)

Organization	Purchasing/Gold/ Convenience	ERS*	Misc. Vouchers	Organization Total
Admin	\$ 13,429	\$ 4,537	\$ 15,605	\$ 33,571
C&GR	78,794	1,276	14,646	94,716
CFO	11,164	357	0	11,521
COO	294,001	52,133	34,941	381,075
CS&M	335,658	21,053	75,060	431,771
ED	91,478	18,992	5,454	115,924
HR	59,740	2,248	4,941	66,929
OTHER	19,708	1,652	75	21,435
Total	\$903,972	\$102,248	\$150,722	\$1,156,942

*ERS – Employee Reimbursement System

TVA Hospitality Expenses Reviewed

(Organizationally, by expense type)

	Florists	Golf	Hotels ¹	Food/ Restaurants	Retail Stores	Tickets	Other	Total
ADMIN	\$ 770	\$ 297	\$ -344 ²	\$ 15,681	\$ 555		\$ 16,612	\$ 33,571
C&GR	502	3,599	11,310	53,775	120		25,410	94,716
CFO	639		1,952	8,544			386	11,521
COO	12,125	157	52,276	174,366	54,267		87,884	381,075
CS&M	2,034	33,901	131,260	140,916	1,308	\$77,371	44,981	431,771
ED	1,084		12,743	73,812	1,434	14,225	12,626	115,924
HR	435		2,963	60,981	45		2,505	66,929
OTHER	675		6,012	9,178			5,570	21,435
TOTAL	\$18,264	\$37,954	\$218,172	\$537,253	\$57,729	\$91,596	\$195,974	\$1,156,942

¹Amounts may include food and beverage costs.

²Net credit of expenses made prior to period reviewed.

Significant Hospitality Examples

- ▶ CS&M spent \$58,433 for the National Rural Electric Cooperative Association annual event held in spring of 2005. This amount included meals, lodging, and a San Diego Bay harbor excursion to show appreciation to distributors.
- ▶ CS&M spent \$39,696 on 6 season tickets to Memphis Grizzlies basketball games. These tickets were for entertaining distributors and customers in the Memphis area.
- ▶ HR spent \$41,594 in meals and refreshments for various New Employee Experience events held throughout the TVA region for new TVA employees.

Finding 2 - Compliance with Policy

We found no instances of noncompliance with BP 7 with regard to the activities and type of expenditures allowed. However, we did find that confusion exists among some people as to what is covered by the policy.

- ▶ A TPS employee stated that a purchase at Wal-Mart was for employee recognition and therefore was not hospitality.
- ▶ An ED employee purchased a plant for use as decoration in a TVA exhibit. The employee stated that the plant was not considered hospitality, although BP 7 specifically states that decorations for TVA-sponsored events are hospitality.

Finding 3 – Hospitality Training

In 2004, TVA's Controller developed a hospitality training module designed to provide more information and training on how to purchase hospitality. This training module is to be completed by (1) all employees who plan or approve hospitality, (2) all Visa Gold and Visa Purchasing card holders and convenience check account holders, and (3) all individuals who verify credit card or convenience check statements.

- ▶ We identified 290 unique purchasers in our database of hospitality transactions and found that 16 purchasers (5.5 percent) had not taken the training but still retained their cards.

Finding 4 – Misclassified Expenses

- ▶ We statistically selected 58 credit card transactions not charged to cost classification 25W to determine whether they were classified in accordance with AP 9. We found 22 of the 58 transactions (37.93 percent) were actually hospitality.
 - ▶ We estimate that of our universe of 1,745 non-25W transactions, 661 should have been classified as hospitality.
- ▶ Although TVA's hospitality policy defines the activities to be considered hospitality, we believe some employees do not understand that materials purchased in support of those particular activities should be classified hospitality as well.
 - ▶ A CS&M employee stated that aluminum pans and utensils purchased for a Retiree Christmas luncheon were classified correctly as 26A (Materials & Supplies) due to the nature of the purchase.
 - ▶ C&GR purchases of helium for balloons at Riverbend were classified as 26A.

Finding 5 – Policy Clarification

We compared BP 7 with TVA's hospitality training module. We found that BP 7 does not address purchases of hospitality with a purchasing card, while TVA's hospitality training and Purchasing Card procedure do address the use of the purchasing card.

- ▶ TPS' Business Services has issued a memo stating that safety meals could be purchased with a purchasing card based on the content of the hospitality training module.
- ▶ Some of the statistically sampled transactions that should have been classified as 25W were made with a purchasing card and charged to the purchasing card default cost classification (26A – Materials and Supplies).

Finding 5 – Policy Clarification (cont'd)

TVA's hospitality training module states that "Pre-approval is required for hospitality events where expenditures are greater than \$500 using TVA's Hospitality Pre-Approval form." However, while BP 7 states that individuals are to obtain pre-approval at certain management levels, depending on the amount, the policy does not specifically address the use of the form.

We obtained forms, where available, from various TVA organizations and found:

- ▶ One organization stated they had failed to use the form consistently but would do so in the future.
- ▶ One organization provided forms as requested; however, their Senior Vice President had signed and dated two of the forms several months after the event occurred.
- ▶ While the form provides space to assess the potential benefits and risks of the event to TVA's reputation, assessment of benefits and risks is not required. All pre-approval forms reviewed included the benefits of the events but did not contain assessment of the risks.

Recommendations

We recommend the TVA Controller:

- ▶ Require any individual who may purchase hospitality to complete the hospitality training, not just those with purchasing or gold cards, or convenience check accounts.
- ▶ Ensure that hospitality expenses are accurately classified in accordance with AP 9.
- ▶ Revise BP 7 to include (1) use of form TVA 17901, Pre-approval of TVA Hospitality Expenditure, for all hospitality events or expenditures in excess of \$500; (2) further clarification on what is considered hospitality (i.e., supplies purchased specifically for a hospitality event); and (3) use of a purchasing card to purchase hospitality.
- ▶ Revise form TVA 17901 to require inclusion of risk to TVA's reputation of the hospitality being requested.

Management's Comments and Our Evaluation

TVA's Controller responded to our recommendations as follows:

- ▶ The Controller agreed to address our recommendation related to ensuring accurate classification of hospitality expenses by (1) further clarifying what is considered hospitality in BP 7 and the on-line hospitality training module, (2) periodically reviewing expenditures through testing of internal controls in related business processes, and (3) monitoring trends in hospitality expense through the monthly reporting process.
- ▶ The Controller agreed with our recommendation to revise BP 7 and will include specific references to TVA Form 17901 and the use of the purchasing card for hospitality spending. The Controller will also further clarify what types of expenditures are considered hospitality.
- ▶ The Controller agreed to revise TVA Form 17901 to make the reputation risk a separate field on the form and require a response.

Management's Comments and Our Evaluation (cont'd)

- ▶ The Controller disagreed with our recommendation requiring hospitality training for any individual who purchases hospitality. However, the Controller committed to increased scrutiny of miscellaneous voucher requests for hospitality. This increased scrutiny, along with the periodic review of expenditures during testing of internal controls, alleviates our concerns over hospitality purchases by noncardholders.